

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE



21-A DISTRICT AGRICULTURAL ASSOCIATION
MADERA DISTRICT FAIR
MADERA, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS

AUDIT REPORT #09-017
FOR THE YEARS ENDED
DECEMBER 31, 2008 AND 2007

21-A DISTRICT AGRICULTURAL ASSOCIATION
MADERA DISTRICT FAIR
MADERA, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS

FOR THE YEARS ENDED
DECEMBER 31, 2008 AND 2007

AUDIT STAFF

Ron Shackelford, CPA
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Audit Chief
Assistant Audit Chief
Auditor

AUDIT REPORT NUMBER

#09-017

21-A DISTRICT AGRICULTURAL ASSOCIATION
MADERA DISTRICT FAIR
MADERA, CALIFORNIA

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditor's Report.....	1
Financial Statements.....	3
Notes to the Financial Statements	6
Report Distribution	14



CALIFORNIA DEPARTMENT OF
FOOD & AGRICULTURE

A. G. Kawamura, Secretary

Mr. Don Farnesi, President
Board of Directors
21-A DAA, Madera District Fair
1850 West Cleveland Avenue
Madera, California 93637

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statements of financial condition of the 21-A District Agricultural Association (DAA), Madera District Fair, Madera, California, as of December 31, 2008 and 2007, and the related statements of operations and changes in accountability, and cash flows-regulatory basis for the years then ended. These financial statements are the responsibility of the 21-A DAA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

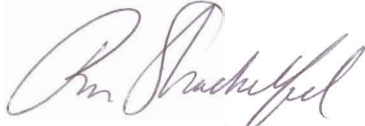
We have conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the 21-A DAA, Madera District Fair, as of December 31, 2008 and 2007, and the results of its operations and changes in accountability, and cash flows-regulatory basis for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The 21-A DAA, Madera District Fair has not presented the Management's Discussion and Analysis, which the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.



Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Management Report #09-017, on the 21-A DAA's compliance with State laws and regulations and system of internal accounting control, is issued solely for the purpose of additional analysis and should be addressed by the 21-A DAA as appropriate. This additional report, however, is not a required part of the basic financial statements.

A handwritten signature in dark ink, appearing to read "Ron Shackelford", is positioned above the printed name.

Ron Shackelford, CPA
Chief, Audit Office

May 22, 2009

**21-A DISTRICT AGRICULTURAL ASSOCIATION
MADERA DISTRICT FAIR
MADERA, CALIFORNIA**

STATEMENTS OF FINANCIAL CONDITION
December 31, 2008 and 2007

	<u>Account Number</u>	<u>2008</u>	<u>2007</u>
ASSETS			
Cash & Cash Equivalents	111 - 118	\$ 1,552,930	\$ 843,194
Accounts Receivable, Net	131	34,362	151,804
Deferred Charges	143	4,241	3,469
Construction in Progress	190	-	248,119
Land and Land Improvements	191	1,851,262	45,297
Buildings and Improvements, Net	192	1,962,543	1,144,823
Equipment, Net	193	41,064	24,849
TOTAL ASSETS		<u>5,446,402</u>	<u>2,461,555</u>
LIABILITIES AND NET RESOURCES			
Liabilities			
Insurance Fees Collected	211	16	91
Accounts Payable	212	17,773	55,494
Current Portion Long Term Debt	212.5	43,605	-
Other Payables	221 - 226	686	374
Deferred Income	228	114,940	26,102
Guaranteed Deposit	241	9,999	9,494
Compensated Absences Liability	245	56,625	54,770
Long-Term Debt	250	2,449,164	5,497
Total Liabilities		<u>2,692,808</u>	<u>151,822</u>
Net Resources			
Reserve for Junior Livestock Auction	251	12,389	9,278
Net Resources - Operations	291	1,379,104	842,864
Net Resources - Capital Assets, less related debt	291.1	1,362,101	1,457,591
Total Net Resources Available		<u>2,753,594</u>	<u>2,309,733</u>
TOTAL LIABILITIES AND NET RESOURCES		<u>\$ 5,446,402</u>	<u>\$ 2,461,555</u>

**21-A DISTRICT AGRICULTURAL ASSOCIATION
MADERA DISTRICT FAIR
MADERA, CALIFORNIA**

STATEMENTS OF OPERATIONS/CHANGES IN ACCOUNTABILITY
December 31, 2008 and 2007

	Account Number	2008	2007
REVENUE			
State Allocation	312	\$ 124,000	\$ 124,000
Capital Project Reimbursements	319	52,993	11,046
Contributions from Other Sources	330	-	-
Other Revenue	340	15,781	32,906
Admissions	410	233,489	247,595
Commercial Space	415	32,100	35,925
Carnival	421	110,427	121,171
Concessions	422	82,607	90,972
Exhibits	430	11,195	11,088
Attractions - Fairtime	460	38,925	42,725
Miscellaneous Fair	470	155,015	173,308
JLA Revenue	476	205,944	51,024
Non-Fair Revenue	480	1,296,207	599,050
Prior Year Adjustment	490	540	1,474
Other Operating Revenue	495	26,806	39,553
Total Revenue		<u>2,386,029</u>	<u>1,581,837</u>
EXPENSES			
Administration	500	455,490	326,585
Maintenance and Operations	520	426,657	415,454
Publicity	540	119,639	99,727
Attendance	560	56,094	49,093
Miscellaneous Fair	570	18,264	15,149
JLA Expense	576	202,833	50,053
Premiums	580	18,955	21,419
Exhibits	630	33,213	27,176
Attractions - Fairtime	660	281,347	294,093
Prior Year Adjustments	800	207,409	(1,524)
Cash Over/Short from Ticket Sales	850	243	269
Depreciation Expense	900	99,307	72,922
Other Capital Expenditures, Reimbursable	945	22,717	40,213
Total Expenses		<u>1,942,168</u>	<u>1,410,629</u>
RESOURCES			
Net Change - Income / (Loss)		443,861	171,208
Resources Available, January 1		2,309,733	2,138,525
Resources Available, December 31		<u><u>\$ 2,753,594</u></u>	<u><u>\$ 2,309,733</u></u>

**21-A DISTRICT AGRICULTURAL ASSOCIATION
MADERA DISTRICT FAIR
MADERA, CALIFORNIA**

STATEMENTS OF CASH FLOWS - REGULATORY BASIS
December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Excess of Revenue Over Expenses (Expenses Over Revenue)	\$ 443,861	\$ 171,208
Adjustment to Reconcile Excess of Revenue Over Expenses to Net Cash Provided by Operating Activities:		
(Increase) Decrease in Accounts Receivable	117,442	(91,733)
(Increase) Decrease in Deferred Charges	(772)	480
Increase (Decrease) in Insurance Fees Collected	(73)	-
Increase (Decrease) in Accounts Payable	(37,721)	33,502
Increase (Decrease) in Payroll Taxes Payable	312	(504)
Increase (Decrease) in Deferred Income	88,838	(14,594)
Increase (Decrease) in Guaranteed Deposits	505	(128)
Increase (Decrease) in Compensated Absence Liability	1,855	3,581
Total Adjustments	<u>170,386</u>	<u>(69,396)</u>
Net Cash Provided (Used) by Operating Activities	<u>614,247</u>	<u>101,812</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
(Increase) Decrease in Construction-in-Progress	248,119	(188,935)
(Increase) Decrease in Land	(1,805,965)	-
(Increase) Decrease in Buildings & Improvements, Net	(817,722)	59,127
(Increase) Decrease in Equipment, Net	<u>(16,215)</u>	<u>(1,751)</u>
Net Cash Provided (Used) by Investing Activities	<u>(2,391,783)</u>	<u>(131,559)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase (Decrease) in Current Long-Term Debt	43,605	-
Increase (Decrease) in Long-Term Debt	<u>2,443,667</u>	<u>(3,288)</u>
Net Cash Provided (Used) by Financing Activities	<u>2,487,272</u>	<u>(3,288)</u>
NET INCREASE (DECREASE) IN CASH	709,736	(33,035)
Cash at Beginning of Year	843,194	876,230
CASH AT END OF YEAR	<u><u>\$ 1,552,930</u></u>	<u><u>\$ 843,194</u></u>

**21-A DISTRICT AGRICULTURAL ASSOCIATION
MADERA DISTRICT FAIR
MADERA, CALIFORNIA**

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2008 and 2007

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - The 21-A District Agricultural Association (DAA) was formed for the purpose of sponsoring, managing, and conducting the Madera District Fair each year in Madera, California. The State of California, Department of Food and Agriculture, through the Division of Fairs and Expositions provides oversight responsibilities to the DAA. The DAA is subject to the policies, procedures, and regulations set forth in the California Government Code, California Business and Professions Code, Public Contracts Code, Food and Agricultural Code, State Administrative Manual, and the Accounting Procedures Manual established by the Division of Fairs and Expositions.

The State of California allocates funds annually to the DAAs to support operations and acquire fixed assets. However, the level of State funding varies from year to year based on budgetary constraints. The Division of Fairs and Expositions determines the amount of the allocations.

Basis of Accounting - The accounting policies applied to and procedures used by the DAA conform to accounting principles applicable to District Agricultural Associations as prescribed by the State Administrative Manual and the Accounting Procedures Manual. The DAA's activities are accounted for as an enterprise fund. The Governmental Accounting Standards Board (GASB) defines an enterprise fund as a fund related to an organization financed and operated in a manner similar to a private business enterprise where the intent is to recover the costs of providing goods or services to the general public primarily through user charges. Pursuant to GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Account, the DAA has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

The DAA's financial activities are accounted for using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP) as promulgated by the Governmental Accounting Standards Board. Thus, revenues are reported in the year earned

rather than collected, and expenses are reported in the year incurred rather than paid.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes – The DAA is a state agency and therefore, is exempt from paying taxes on its income.

Cash and Cash Equivalents - The DAA's cash and cash equivalents are separately held in various local banks. The Financial Accounting Standards Board defines cash equivalents as short-term, highly liquid investments that are both: (1) readily convertible to known amounts of cash; and (2) so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. The cost of all cash equivalents of the DAA approximates market value.

The California State Treasury makes available the Local Agency Investment Fund (LAIF) through which local governments may pool investments. Each governmental entity may invest up to \$40,000,000 in the fund. Investments in the LAIF are highly liquid, as deposits can be converted to cash within 24 hours without loss of interest.

In accordance with the Accounting Procedures Manual, the DAA is authorized to deposit funds in certificates of deposit and interest bearing accounts. However, Government Code Sections 16521 and 16611 require the bank or savings and loan association to deposit, with the State Treasurer, securities valued at 110 percent of the uninsured portion of the funds deposited with the financial institution. Government Code Sections 16520 and 16610 provide that security need not be required for that portion of any deposit insured under any law of the United States, such as FDIC and FSLIC.

Inventories – Inventories, if any, consists primarily of souvenir items sold during fair time, and is stated at cost.

Property and Equipment - Construction-in-progress, land, buildings and improvements, and equipment are acquired with operating funds and funds allocated by the State. Any acquired assets, if greater than \$5,000 and a useful life of one or more years, are recorded at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the asset. Buildings and improvements are depreciated over 30 years, and purchases of equipment are depreciated over five years. Costs of repair and maintenance are expensed as incurred by the DAA. Furthermore, donated building improvements, and equipment are recorded at their fair market value at the date of the gift. This recorded basis is depreciated over the

useful lives identified above. The costs of projects that have not been placed in service are recorded in Account #190, Construction-in-Progress, and no depreciation is recorded on Construction-in-Progress until the project is completed and the asset is placed in service.

Compensated Absences - Pursuant to Statement No. 16 of the Governmental Accounting Standards Board, State and local governmental entities are required to report the liability for compensated absences. Compensated absences are absences for which permanent employees will be paid, such as vacation, personal leave, and compensatory time off. The compensated absences liability is calculated based on the pay rates in effect at the balance sheet date.

NOTE 2 NEW ACCOUNTING STANDARDS

In July 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, ("GASB Statement No. 45"). This statement establishes standards for the measurement, recognition, and display of postretirement benefits other than pensions expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. The statement becomes effective for the District for periods beginning after December 15, 2007. Management has not determined the effect of GASB Statement No. 45 on the combined financial statements.

In September 2006, the GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Receivables and Future Revenues*, ("GASB Statement No. 48"). GASB Statement No. 48 establishes criteria that governments will use to ascertain whether the proceeds received should be reported as revenue or as a liability. The criteria should be used to determine the extent to which a transferor government either retains or relinquishes control over the receivables or future revenues through its continuing involvement with those receivables or future revenues. This Statement establishes that a transaction will be reported as a collateralized borrowing unless the criteria indicating that a sale has taken place are met. If it is determined that a transaction involving receivables should be reported as a sale, the difference between the carrying value of the receivables and the proceeds should be recognized in the period of the sale in the change statements. If it is determined that a transaction involving future revenues should not be reported as a sale, the revenue should be deferred and amortized, except when specific criteria are met. This Statement also provides additional guidance for sales of receivables and future revenues within the same financial reporting entity. This statement is effective for periods beginning after December 15, 2006. Adoption of this statement did not have a material impact on the combined financial statements.

In November 2006, the GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, (“GASB Statement No. 49”). GASB Statement No. 49 requires governmental entities to report pollution remediation costs in their financial statements. It identifies five obligating events under which the government should estimate the expected obligations for pollution remediation. Under the standard, liabilities and expenses will be estimated using an “expected cash flows” measurement technique, which will be employed for the first time by governments. Further, the standard requires that governments disclose information about their pollution remediation obligations associated with clean-up efforts in the notes to the financial statements. GASB Statement No. 49 will be effective for financial statements with periods beginning December 15, 2007, but liabilities should be measured at the beginning of that period so that beginning net assets can be restated. Management has not determined the effect of GASB Statement No. 49 on the combined financial statements.

In May 2007, the GASB issued Statement No. 50, *Pension Disclosures*, (GASB Statement No. 50”). GASB Statement No. 50 more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits (“OPEB”) and, in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information (“RSI”) by pension plans and by employers that provide pension benefits. The reporting changes required by this Statement amend applicable note disclosure and RSI requirements of GASB Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, (“GASB Statement No. 25”), and No. 27, *Accounting for Pensions by State and Local Governmental Employers*, (“GASB Statement No. 27”) to conform with requirements of Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, (“GASB Statement No. 43”) and No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, (“GASB Statement No. 45”). GASB Statement No. 50 will be effective for financial statements with periods beginning after June 15, 2007. Management has not determined the effect of GASB Statement No. 50 on the combined financial statements.

In July 2007, the GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, (“GASB Statement No. 51”). GASB Statement No. 51 requires that intangible assets be classified as capital assets (except for those explicitly excluded from the scope of the new standard, such as capital leases). GASB Statement No. 51 will be effective for financial statements with periods beginning after June 15, 2009. Management has not determined the effect of GASB Statement No. 51 on the combined financial statements.

NOTE 3 CASH AND CASH EQUIVALENTS

The following list of cash and cash equivalents were held by the DAA as of December 31:

	<u>2008</u>	<u>2007</u>
Petty Cash	\$ 100	\$ 100
Cash in Bank - Operating	189,750	114,045
Cash in Bank - Payroll	313	536
Cash in Bank - Auction	15,242	12,272
Cash in Bank - Sweep	645,194	-
Cash in Bank - Investment & Savings	<u>702,331</u>	<u>716,241</u>
Total Cash and Cash Equivalents	<u>\$ 1,552,930</u>	<u>\$ 843,194</u>

NOTE 4 ACCOUNTS RECEIVABLE

The DAA is required to record an allowance for doubtful accounts based on estimates of collectability.

	<u>2008</u>	<u>2007</u>
Accounts Receivable – General	\$ 34,362	\$ 72,348
Accounts Receivable – Sponsorships	-	80,000
Allowance for Doubtful Accounts	<u>-</u>	<u>(544)</u>
Accounts Receivable - Net	<u>\$ 34,362</u>	<u>\$ 151,804</u>

NOTE 5 PROPERTY AND EQUIPMENT

Buildings and improvements, and equipment at December 31, 2008 and 2007 consist of the following:

	<u>2008</u>	<u>2007</u>
Building & Improvements	\$ 3,506,262	\$ 2,771,927
Less: Accumulated Depreciation	<u>(1,543,717)</u>	<u>(1,627,104)</u>
Building & Improvements - Net	<u>\$ 1,962,545</u>	<u>\$ 1,144,823</u>
Equipment	\$ 177,156	\$ 181,510
Less: Accumulated Depreciation	<u>(136,092)</u>	<u>(158,412)</u>
Equipment - Net	<u>\$ 41,063</u>	<u>\$ 23,098</u>

NOTE 6**OPERATING LEASE AND AGREEMENTS**

In 2006, Madera District Fair entered into a 83-year agreement with a Development Group in Madera, allowing the developer to lease a portion of the fairgrounds for the development and use of the property. Under the terms of the agreement, the developer is to develop retail and commercial uses on the property and to pay all project costs. The Fair has contributed approximately \$2.5 million towards the development of the land for the project.

During the term of the agreement, the developer or its tenants will own all buildings, structures, improvements, and fixtures located on the property. The developer is not to remove, destroy, or modify fixtures on the property except as permitted by the lease or by the ground lease between the developer and its subtenant. At the end of the term, or sooner termination of the lease, title to all buildings, structures, improvements, and fixtures on the property will be vested in the DAA. A written request will be required 6 months prior to the end of the term if the developer agrees to remove any buildings, structures, improvements, and fixtures designated by the DAA, at the sole cost and expense of the developer.

Based on the agreement with the Development Group, minimum future rents to be paid to the Madera District Fair for the next 62 years are as follows:

Years ending December 31

2009	\$ 550,000
2010	790,000
2011	925,000
2012	925,000
2013 - 2070	<u>100,127,654</u>
Total	<u>\$103,317,654</u>

Beginning on the first day of the 63rd year, rent will be the market rate for similar retail and commercial projects as established every five years by an independent appraisal. The market rate rent for each five-year period will be established at least nine months prior to the start of that five-year period.

NOTE 7 **CAPITAL LEASE**

In January 2008, the 21-A DAA entered into a long-term capital lease agreement with a financing company to lease an office copier. The terms of the agreement are as follows:

Sharp Copier, Model AR-M550N IMAGER

Loan Amount	\$ 13,327
First Payment Date	January 9, 2008
Monthly Payment	\$ 399
Duration of Loan	60 Months
Interest Rate	7.75%
Total Outstanding at 12/31/08	\$ 8,539

NOTE 8 **LONG-TERM DEBT**

The DAA has entered into a long-term loan agreement with County Bank to finance the Commercial Development project on the fairgrounds. The terms of the agreement are as follows:

County Bank Loan:

Loan Amount	\$ 2,500,000
First Payment Date	May 16, 2008
Payment Amount	\$ 17,333
Duration of Loan	300 Months
Interest Rate	6.70 %
Total Outstanding at 12/31/08	\$ 2,484,230
Current Portion at 12/31/08	\$ 43,605
Long-Term Portion at 12/31/08	\$ 2,440,625

NOTE 9 **RETIREMENT PLAN**

Permanent employees of the DAA are members of the Public Employees' Retirement System (PERS), which is a defined benefit contributory retirement plan. The retirement contributions made by the DAA and its employees are actuarially determined. Contributions plus earnings of the Retirement System will provide the necessary funds to pay retirement costs when accrued. The DAA's share of retirement contributions is included in the cost of administration. For further information, please refer to the annual single audit of the State of California.

Retirement benefits fully vest after five years of credited service for Tier I employees. Retirement benefits fully vest after ten years of credited service for Tier II employees. Upon separation from State employment, members'

accumulated contributions are refundable with interest credited through the date of separation. The DAA, however, does not accrue the liability associated with vested benefits.

The Alternate Retirement Program (ARP) is a retirement savings program that certain employees hired on or after August 11, 2004 are automatically enrolled in for their first two years of employment with the State of California. ARP is administered by the Savings Plus Program with the Department of Personnel Administration and invests funds in a fixed-income fund. ARP provides two years of retirement savings (five percent of paycheck amount each month) in lieu of two years of service credit. At the end of the two-year period, the deductions are placed in CalPERS and the retirement service credit begins.

Temporary, 119-day, employees of the DAA participate in the Part-Time, Seasonal, Temporary (PST) Retirement Plan. The PST Retirement Plan is a mandatory deferred compensation plan under which 7.5% of the employee's gross salary is deducted before taxes are calculated. These pre-tax dollars are placed in a guaranteed savings program. The employee has the option of leaving these funds on deposit upon separation, or requesting a refund.

NOTE 10 **DEFERRED INCOME**

Deferred income totaling \$114,940 at December 31, 2008 consist of 2009 through 2017 sponsorship revenue paid in advance totaling \$90,000, and 2009 facility rental revenue received in 2008 totaling \$24,940.

NOTE 11 **RECLASSIFICATION**

The 2007 balances for Accounts Receivable and Deferred Income have been updated to reverse a multi-year receivable. In addition, certain prior-year balances have been reclassified to conform to current year presentation. These reclassifications did not have an effect on net income.

**21-A DISTRICT AGRICULTURAL ASSOCIATION
MADERA DISTRICT FAIR
MADERA, CALIFORNIA**

REPORT DISTRIBUTION

<u>Number</u>	<u>Recipient</u>
1	President, 21-A DAA Board of Directors
1	Chief Executive Officer, 21-A DAA
1	Director, Division of Fairs and Expositions
1	Chief Counsel, CDFA Legal Office
1	Chief, CDFA Audit Office

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE



21-A DISTRICT AGRICULTURAL ASSOCIATION
MADERA DISTRICT FAIR
MADERA, CALIFORNIA

MANAGEMENT REPORT #09-017

YEAR ENDED DECEMBER 31, 2008

21-A DISTRICT AGRICULTURAL ASSOCIATION
MADERA DISTRICT FAIR
MADERA, CALIFORNIA

MANAGEMENT REPORT
YEAR ENDED DECEMBER 31, 2008

AUDIT STAFF

Ron Shackelford, CPA
Shakil Anwar, CPA
Michelle Chan

Audit Chief
Assistant Audit Chief
Auditor

MANAGEMENT REPORT NUMBER
#09-017

TABLE OF CONTENTS

	<u>PAGE</u>
MANAGEMENT LETTER.....	1
REPORTABLE CONDITIONS	3
Board Member Benefits	3
Accounting for Annual Leave	3
NON-REPORTABLE CONDITIONS	4
Sponsorship Agreements	4
Reporting a Minor Theft of Funds	4
Purchasing Procedures	5
DISTRICT AGRICULTURAL ASSOCIATION’S RESPONSE	6
CDFA EVALUATION OF RESPONSE.....	9
DISPOSITION OF AUDIT RESULTS.....	10
REPORT DISTRIBUTION	11



CALIFORNIA DEPARTMENT OF
FOOD & AGRICULTURE

A. G. Kawamura, Secretary

Mr. Don Farnesi, President
Board of Directors
21-A DAA, Madera District Fair
1850 West Cleveland Avenue
Madera, California 93637

In planning and performing our audit of the financial statements of the 21-A District Agricultural Association (DAA), Madera District Fair, Madera, California, for the year ended December 31, 2008, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure. However, we noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

In addition, this Management Report includes: (1) matters other than those related to the internal control structure which came to our attention that could, in our judgment, either individually or in the aggregate, have a significant effect on the entity's financial reporting process (e.g., accounting errors, significant audit adjustments, etc.), and (2) areas of non-compliance by the Madera District Fair with respect to State laws and regulations, with the Accounting Procedures Manual, and with established policies and procedures.

In accordance with Government Code Section 13402, Fair managers and Board of Directors are responsible for the establishment and maintenance of a system or systems of internal accounting and administrative control within their agencies. This responsibility includes documenting the system, communicating system requirements to employees, and assuring that the system is functioning as prescribed and is modified, as appropriate, for changes in conditions.

Due to the small size of the 21-A DAA's office staff, it is not practical to have the degree of segregation of duties possible in a larger organization. Therefore, the Board of Directors must consider this when determining the extent that the Board becomes involved in operations to adequately safeguard the 21-A DAA's assets. The system of internal control should provide the Board of Directors and management reasonable, but not absolute,



assurance that: (1) only authorized transactions are executed; (2) transactions are properly recorded in the accounting records; and (3) material errors and irregularities that may occur, will be detected by the 21-A DAA in a timely manner during the normal course of operations. In this regard, it is particularly important that the Board review and approve significant transactions and critically review monthly financial information. The 21-A DAA's minimum staffing was one factor considered in determining the nature, timing, and extent of the tests to be performed on the 21-A DAA's accounting procedures, records, and substantiating documents.

During our audit of the internal control structure of the 21-A DAA and compliance with state laws and regulations, we identified two areas with reportable conditions that are considered weaknesses in the Fair's operations: board member benefits and accounting for annual leave. We have provided three recommendations to improve the operations of the Fair. The Fair must respond in writing on how these recommendations will be implemented.

We also identified additional areas containing non-reportable conditions. These conditions and accompanying recommendations are not considered significant weaknesses. We have included these items solely for the benefit of the 21-A DAA's management. We suggest the Fair implement the recommendations as soon as practicable. The Fair, however, is not required to provide written responses to the recommendations for non-reportable conditions.

REPORTABLE CONDITIONS

BOARD MEMBER BENEFITS

For the audit period, our office noted the Fair provided its nine Board Members with approximately \$6,930 in concert tickets without maintaining specific documentation demonstrating the business purpose of this distribution. During the annual fair, the Fair had three concerts with each concert selling tickets priced at \$10, \$20, and \$25 for front section seating. Each Board Member received 14 tickets to each concert, totaling \$770 apiece without specifying the guests entertained and the accompanying business purposes expected to be received by the Fair.

The Fair should be cautioned that, if there is not a legitimate business purpose, distributions of this nature may be deemed a gift of public funds according to the State Constitution. Based on the State Constitution, the Fair has no “power to make any gift or authorize the making of any gift, of any public money or thing of value to any individual...”

Recommendations

- 1. The Fair should reevaluate its policy pertaining to the distribution of all types of tickets and passes to its Board of Directors. As a State agency, the Fair has the ultimate responsibility to the public to demonstrate compliance with all the State rules and regulations, including the State Constitution, in order to prevent the perception of an inappropriate use of public funds.*
- 2. The Fair should follow the Division of Fairs & Expositions (F&E) internal policy and the Accounting Procedures Manual (APM) rules over promotional or public relations expenses by documenting the business purpose, including the names of all recipients of the item or benefit, the purpose of the expenditure, justification by specifying the business topics discussed during the event, and necessity of or the benefits expected to accrue to the Fair by entertaining.*

ACCOUNTING FOR ANNUAL LEAVE

The Fair allowed one employee to exceed the maximum hours allowed for accrual for annual leave. According to the Department of Personnel Administration, employees are allowed to accumulate up to 640 hours of annual leave as of January 1 of each year. One employee accumulated 795 hours of annual leave at year-end, exceeding the annual leave limitation by 155 hours.

Recommendation

- 3. The Fair should review employee leave balances to ensure employees do not accumulate more than 640 hours. Furthermore, the Fair should develop a plan with the employee to ensure excess vacation hours are used, in order to reduce the employee's leave balances.*

NON-REPORTABLE CONDITIONS

SPONSORSHIP AGREEMENTS

An examination of Fair's sponsorship agreements and related procedures identified the following internal control weaknesses:

- a. The Fair had one sponsorship agreement with terms equal to \$100,000 and greater than two years that was submitted to F&E for notification after both parties signed the agreement. As a result, the Fair entered into the agreement prior to notification of F&E review. According to the F&E Contract Manual, F&E must be notified of all sponsorship agreements exceeding \$100,000, or that have a period exceeding two years prior to signing the agreement.
- b. The Fair did not prepare a brief description in memo form why it is in the best interest of the DAA and the State for entering into the proposed sponsorship agreement with terms of \$100,000 and greater than two years. This form is to be submitted to F&E for review to determine whether or not the terms are in the best interest of the DAA and the State.

Recommendations

The Fair should comply with the F&E Contract Manual by submitting to F&E for notification sponsorship agreements exceeding \$100,000 or having a period in excess of two years.

When required, the Fair should comply with the F&E Contract Manual and submit to F&E for review, a brief description in memo form why the proposed sponsorship agreements are in the best interest of the State, prior to entering into the agreement.

REPORTING A MINOR THEFT OF FUNDS

The Fair did not notify the CDFA audit chief the next business day upon discovering a minor burglary of a Fair safe containing log books, credit card receipts, checks, and an immaterial amount in cash. The Fair was able to cancel all checks and contact credit card companies to report potential fraud. A police report was filed the day after the event; however, a copy of the police report was not kept in the Fair's files for reference. According to the Accounting Procedures Manual, when funds appear to be missing or stolen, local police and the CDFA audit chief must be notified by the next business day.

Recommendation

The Fair should comply with the Accounting Procedures Manual Section 1 Chapter 3.25 and 3.41. The Fair must notify the CDFA audit chief no later than the next business day in the event of a burglary. The CEO should assess the situation and produce a "memo of preventive action" that outlines a plan to prevent recurrences, and submit it to the audit chief. Copies of police reports must also be kept in the Fair's files for reference.

PURCHASING PROCEDURES

The Fair did not obtain bids prior to the purchase of equipment exceeding \$5,000. According to the Contract Manual for District Agricultural Associations, Chapter 2.05 B., contracts over \$5,000 are not exempt from bidding and must either be formally bid or awarded using the Alternative Bid Process.

Recommendation

The Fair should comply with the F&E Contract Manual by obtaining bids for all purchases exceeding \$5,000 to ensure that purchases are made in the best interest of the State.

DISTRICT AGRICULTURAL ASSOCIATION'S RESPONSE



September 30, 2009

Ron Shackelford, CPA
Chief, Audit office
Department of Food & Agriculture
1220 N Street, Room 344
Sacramento, CA 95814

SUBJECT: MANAGEMENT REPORT #09-017

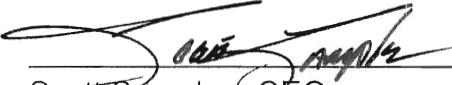
Dear Mr. Shackelford:

Attached is my response to the three (3) reportable conditions that you outlined in your 2009 Audit Report for the year ended December 31, 2008.

As you can see by the attached, we have and/or will be implementing the reportable conditions.

If you have any questions, please do not hesitate to call me at (559) 674-8511.

Sincerely,



Scott Sample - CEO



Don Farnesi - Board President

Cc: Division of Fairs & Expositions

2009 AUDIT

REPORTABLE CONDITIONS

BOARD MEMBER BENEFITS

1. The Fair will implement the recommendation set by the Audit Office for the 2009 Fair. The Board of Directors will list the name of the recipient(s) for which they received an item or benefit. The Board will also document how the fair is benefiting from each recipient.
2. After the annual fair, the Board will review, in its entirety, and put into practice a new policy for ticket distribution.

ACCOUNTING FOR ANNUAL LEAVE

3. The Fair will immediately address the vacation time that is exceeding the limitations by the employee mentioned in the Audit Report. The Fair has already modified the employee's work schedule in an attempt to decrease the exceeded vacation time.

The Fair will also review each employees leave balance each month to insure that employees do not exceed any limitations.

CDDA EVALUATION OF RESPONSE

A draft copy of this report was forwarded to the management of the 21-A DAA, Madera District Fair, for its review and response. We have reviewed the response and it addresses the findings contained in this report.

DISPOSITION OF AUDIT RESULTS

The findings in this management report are based on fieldwork that my staff performed between May 11, 2009 and May 22, 2009. My staff met with management on May 22, 2009 to discuss the findings and recommendations, as well as other issues.

This report is intended for the information of the Board of Directors, management, and the Division of Fairs and Expositions. However, this report is a matter of public record and its distribution is not limited.



Ron Shackelford, CPA
Chief, Audit Office

May 22, 2009

REPORT DISTRIBUTION

<u>Number</u>	<u>Recipient</u>
1	President, 21-A DAA Board of Directors
1	Chief Executive Officer, 21-A DAA
1	Director, Division of Fairs and Expositions
1	Chief Counsel, CDFA Legal Office
1	Chief, CDFA Audit Office